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SOLVENCY OF THE CORPORATE ENTERPRISE

ABSTRACT*:* Modern business is characterized by turbulence and unpredictability. The position of a company is influenced by internal and external factors. Management has significant opportunities to influence internal factors while it cannot influence external ones. The prerequisite for quality management is timely insight into the strengths and weaknesses of the company. In order for a corporate company to be successful, it is necessary to analyze all elements that guarantee general material stability, good reputation and prospects, as well as a good competitive position in the market, good development and production programs that guarantee a long life cycle and its right strategy. Solvency refers to business analysis that aims to determine and assess the quality of business. It shows how successful a certain company is, so it serves to assess the current financial situation as well as to assess future business and development. The aim of the research is to point out the importance of solvency assessment and to explain how information is collected so that it can be used to avoid business risks.

Key words: solvency, financial indicators, corporate enterprise

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INTRODUCTION

Solvency information is the basis for analyzing the economic and financial behavior of a corporate company and is a necessary element in making business decisions, hence the importance of this research. Solvency as an assessment of success requires taking into account two important principles, namely security and profit. A business must be profitable to cover costs and losses, to provide an adequate amount of reserves for future unforeseen events. If a corporate company seeks to have the trust of the public and if it wants to continuously conduct its business, then it must do business with certainty.

Solvency represents the company's ability to cover all liabilities in the long run and short-term perspectives. Solvent company is able to continue operations into the predictable future (Mavlutova et.al., 2021). There are different understandings and approaches to the concept of solvency, and therefore there are different methodologies and ratings of solvency. It is widely considered that the most rational approach is to take into account all the elements in order to evaluate the company as a whole.

THE NOTION OF CORPORATE SOLVENCY

Solvency assessment is necessary in order to determine the financial situation in the company. It is necessary to perform a detailed analysis based on financial statements and compare the results based on reference values and thus determine the creditworthiness and situation in the company (Vojinović, Prokić, 2017). Thus it indicates the position of the company, the activities that the company performs, the reputation of the company. On the basis of solvency, the possibility of procuring sources of financing is considered.

The concepts of liquidity and solvency are closely interrelated but not identical (Smirnova, Buhrimenko, 2021). The debtor may not be liquid at a given time, but they can still be considered solvent. It should be borne in mind that a company with large assets can always increase coverage over debt. Hence, the solvency of a company always includes the possibility of realization, ie collectability of receivables, solvency of the company, security of placement in that company, creditworthiness (Pejić, Radovanović, Stanišić, 1991).

According to Rodić, the solvency of a company is "a quantitative and qualitative expression of the company's business ability and the security of its business" (Rodić, Andrić, Vukelić, Vuković, 2015).

According to Malešević, the solvency of a corporate company can be assessed:

• As good - good solvency is characterized by companies that meet strict criteria such as: financial and profit stability, the inclusion of issued shares on the lists of stock exchanges.

• Eligible - companies that can perform business activity with unhindered financing or payment of obligations to creditors and suppliers on time.

• Minimum - companies that have a minimum creditworthiness can borrow money or credit only with the pledge or guarantee of a third party (Malešević, Malešević, 2011).

Business analysis provides information for assessing business in the past, but also for business planning. The focus of the analysis is the assessment of the solvency of business processes in the company. At the same time, it is very important to discover the causes, the unfavorable consequences of which may endanger a company's business activity (Bogićević, Stanisavljević, Janjić, 2017).

Solvency depends on various external and internal factors. Unfavorable business conditions such as credit restrictions, high interest rates, illiquidity, policies, exchange rate regime, affect the fact that the company must have a good business policy. It is necessary for the company to constantly adapt to market conditions and to pursue an active policy.

According to Narandžić, "solvency is a qualitative and quantitative expression of a company's business ability and the security of its business" (Dickov, Narandžić, Perović, 2004).

Solvency measurement is expressed through information and data that are important to stakeholders. In order to properly determine and measure solvency, it is essential that the financial statements be credible and complete. It is also necessary to comply with the standards for the preparation of financial statements. Therefore, there is a problem with data quality. Sometimes management does not present the actual situation in the reports and the problem in such reports is a realistic assessment of net assets and business results.

There are traditional and modern solvency assessment models. The traditional model is most often used in practice. This model of solvency assessment is performed on the basis of the following indicators: financial indicator, asset position, yield position, management, market value of the share. The modern credit rating model is Altman's Z-score model (Filipović, Mirjanić, 2016).

"The key link in financial diagnostics is the solvency characteristics of the economic entity, the support of which is the basis of the financial health of an enterprise. In the event of insolvency, the enterprise cannot develop and expand its business" (Karzaeva, Karzaeva, 2019).

SOLVENCY ASSESSMENT METHODOLOGY

The methodology for standardizing solvency indicators was established in 2002 (APR). Since then, it has complied with European Union directives, international accounting standards and financial analysis rules. The methodology for assessing the ability of a corporate company to settle its liabilities in the form of scoring system was established in 2007. It is based on the quantitative evaluation of the company's financial performance.

Since the methodology for establishing solvency data and indicators and providing solvency assessment was established, the necessary adjustments have been made only to bring the methodology in line with changes in accounting regulations. The assessment of the solvency of the company in the form of scoring has been determined according to the same model since 2008 (APR). The third version of the assessment in the form of scoring was issued in 2020 and was determined on the basis of improved analyzes adapted to modern business trends.

The methodology for determining the solvency data of companies, cooperatives, institutions and entrepreneurs and assessing the solvency of companies determines the manner of disclosing solvency data, the content of the solvency report, the procedure for determining solvency estimates and the content of scoring. The data are kept in the solvency database in the Register of Financial Statements (Službeni glasnik RS, no. 127/2014, 101/2016 and 111/2017).

In our country, the methodology for solvency assessment, ie business indicators that are used to assess solvency are: indicators of financial stability, liquidity, business performance and other indicators. Data from financial statements are the basis for calculating these indicators.

NARROWER AND WIDER CONCEPT OF SOLVENCY

There are two basic concepts of solvency, the narrower and the broader. The narrower concept boils down to financial solvency based on creditworthiness indicators that can be obtained from the data provided by the financial statements. This approach is also called ratio analysis.

In addition to financial indicators, the broader concept also includes the assessment of the level of integration of business functions, ie market position, organization of the company, personnel structure, business functions, technological and information equipment and others. This approach is more comprehensive than when solvency is seen as financial solvency.

The broader concept encompasses a range of determinants that indicate advantages, disadvantages, opportunities, and adverse circumstances. This

approach is also called SWOT (Strength, Weakness, Opportunities, Treats). This analysis serves to reconcile external possibilities and internal potentials. It indicates how to use strengths and potentials and identify weaknesses and find ways to reduce them, it indicates opportunities and opportunities as well as potential threats that should be avoided (Ivaniš, 2007).

In making important decisions, financial market participants should take into account, in addition to financial analysis, other relevant qualitative and quantitative information, such as performance trends, industry or industry data (national and global), data on unrecognized intangible assets, risk factors and information on strategy and quality of management and leadership (Zajmi, 2019).

SOLVENCY REPORT

The solvency report is a set of solvency data that is the basis for determining the business performance and financial position of a corporate enterprise. The report is made for a period of three years. The report can be standardized or prepared for general purposes and can be specialized or prepared for specific purposes in accordance with special regulations and market needs.

The parts of the report are as follows: basic information, summary balances, credit rating indicators, data on the audit of financial statements, data on insolvency days, data on the ban on disposing of funds in bank accounts (Službeni glasnik RS, br. 127/2014, 101/2016 i 111/2017).

The basic data for determining solvency are: data on establishment, founders and founding capital, data on activity, size, management, privatization, payment operations, liquidity and bankruptcy and other data.

Summary balance sheets are used to calculate indicators and determine the success of the company. The audit data on the financial statements contain the latest audit report. This data is taken from the database of scanned reports kept in the Register of Financial Statements. Data on insolvency days contain data for the last six months, before the month in which the solvency report is issued. These data are obtained from the National Bank of Serbia. Data on the ban on disposing of funds are data on the ban on banks. This information contains the date of the ban on disposing of funds and the total amount of blocked funds.

SOLVENCY INFORMATION BENEFICIARIES

It is important to determine solvency so that the public, owners and employees have an insight into the company's operations. Information on the financial environment and financial situation of the company is important for deciding on the acquisition, use and return of funds. Based on the analysis of financial statements, information is obtained that is important for management, creditors, owners and employees.

Balance sheet analysis provides management with the necessary data that is important for business. Special attention should be paid to the balance sheet based on the insight into liquidity and solvency. Management seeks to prevent insolvency and provide sufficient funds to meet due obligations. The insolvency of the company can affect creditors to give up planned placements, which would negatively affect the overall business activity of the company. Success and failure are considered on the basis of the income statement (Vukasović, Vojinović, 2010). Based on solvency, the company's management plans strategies, organizes business and influences the way resources are managed. The management of the company is interested in all aspects of business.

Many banks ask companies for creditworthiness information when approving loans. Banks require that financial reports be submitted regularly so that they always have an insight into the company's operations. Creditors, such as banks, in addition to analyzing financial statements, monitor and control the accounting methods and procedures used in calculating profits. Financial statements are a source of information that creditors use in order to assess the financial capacity of the company.

Permanent capital is engaged by individual owners, partners or several shareholders. The larger the form of business organization, the greater the possibility that the capital will be hired by more investors, ie investors whose goal is to increase the invested capital. They are interested in capital protection and the right to profit distribution. Shareholders are interested in the return on their capital (Vukasović, Vojinović, 2010).

Owners and employees participate in the distribution of profits. The owners are interested in their invested capital, profitability and security. "Profitability is the central indicator of a company's performance. The optimal level of profitability measures the long-term success and thus its survival." (Milošev, 2021).

Workers' salaries depend on the achieved business results. Employees are interested in productivity, profitability, company development. The short-term lender is interested in information on liquidity while the long-term lender is interested in information on indebtedness.

FINANCIAL ANALYSIS IN THE FUNCTION OF SOLVENCY ASSESSMENT

Business management and enterprise development is the basic task of management. Business analysis is very important and shows the information needed to manage the business. The complete analysis strives to collect all information and data (Vukasović, Vojinović, 2010). Financial analysis refers to value information and data. Financial analysis focuses on quantitative financial information and is also called financial statement analysis.

The term analysis comes from a Greek word whose meaning is disassembly, decomposition of a complex object into its constitutive elements. A broader interpretation of this term refers to two procedures, namely: the process of analysis, which is a qualitative aspect of analysis, and the procedure of comparison or comparison of constitutive elements of the analyzed object - quantitative aspect of analysis (Dickov, Narandžić, Perović, 2004).

There are various financial analyzes in economic theory:
- those that indicate various aspects of the financial condition, position and financial structure of the company, activities in the financial field,
- and analyzes that, through financial terms and relations, indicate the overall activity of the company and its position (Vučičević, 2012).

"The main goal or meaning of the analysis is to provide information on its solvency or development trend based on the determined quality and quantity of the analyzed object." (Pejić, Radovanović, Stanišić, 1991). Financial analyzes are performed on the basis of financial reports in order to review and assess the financial situation of the company. Financial analysis is the basic starting point for financial planning (Hrustić, 2004). It is based on balance sheets and is aimed at examining the financial position and earning capacity of the company. The financial statements arise from the company's accounting as a regular conclusion of the books of account. With the help of financial reports, the financial position and business success are considered. There are several types of financial statements, and the most important are: balance sheet, income statement, statement of changes in equity, statement of cash flows, statement of other results, notes to the financial statements and statistical annex. The balance sheet and income statement are the basic ones. Balance sheets include the balance and changes in funds, sources of funds, income, expenses, financial result. Operating result is obtained as the difference between operating income and operating expenses. Based on balance sheet data, management makes important business decisions. The analysis of the balance sheet can predict risks, consider creditworthiness indicators, market position. The balance sheet gives an overview of assets (assets), liabilities and capital (equity) at a particular time. The income statement gives an overview of the financial result in a certain period of time.

The statement of cash flows shows the inflows and outflows of cash based on the business, investment and financial activities of the company. This report aims to confront cash inflows and outflows to ensure adequate liquidity of the company. The capital balance shows the distribution of profits on dividends and retained earnings (Pešalj, 2006).

The analysis is performed for the purpose of business continuity. It is a process from which information about financial activities is constantly generated. For analytical needs, an information base must be prepared according to the requirements of financial analysis. In order to perform a successful analysis, it is necessary to prepare financial reports, ie it is necessary to consider the usability of balance sheet data, then to consolidate the balance sheet and income statement, as well as to classify balance sheet data. After that, it is necessary to choose adequate instruments of analysis and analytically significant balance relations.

For the analysis of the financial situation, business indicators are used, which are expressed in the form of financial coefficients or ratios. (Barać, Ivaniš, Jeremić, 2004). "Ratio is the index by which one variable is measured in relation to the other variable and is usually calculated as a percentage or rate" (Vesić, Gavrilović, Petronijević, 2019). Financial indicators are calculated to obtain information on liquidity, indebtedness, profitability and efficiency. Based on the information obtained, the company makes decisions. Consequently, one of the important tools for decision making are financial indicators, or "the set of the financial analysis indicators and modelling the phenomena specific to enterprises are important instruments for justifying financial decisions, which can contribute to increasing the capacity of the economic agents to create value in conditions of efficiency" (Burja, Burja, 2010). The basic purpose of the analysis is to provide information on solvency. It must serve to prepare business decisions, thus influencing the financial policy of the company.

CONCLUSION

Solvency is the practice of predicting the survival and development of a company. It is a presentation of its quantitative and qualitative abilities, first of all yield, then property, and financial abilities. Solvency indicates the company's ability to perform its business successfully. It refers to business analysis that aims to determine and assess the quality of business. Solvency measurement is expressed through information and data obtained from financial statements. In order to properly determine and measure solvency, it is essential that the financial statements be of good quality and complete. In

this paper, special attention has been paid to financial analysis in the function of credit rating.

By studying the existing literature in the field of financial analysis, it was possible to conclude that the assessment of quantitative solvency indicators is extremely important for current and future business operations. Based on the solvency assessment, information is obtained that is important for various stakeholders and primarily for business owners and managers. Depending on the users of information and their interests, the importance of certain segments of the overall financial analysis is emphasized. Significance is observed from the aspect of business management and enterprise development. Financial analysis follows the management process and precedes the planning process. The financial plan must take into account the good qualities of the company and its weaknesses. Financial analysis indicates the weaknesses of the company, which is important to analyze in order to take corrective action in a timely manner. Also for the needs of management or decision-making, financial analysis creates an information base.

REZIME
BONITET KORPORATIVNOG PREDUZEĆA

Savremeno poslovanje odlikuje turbulentnost i nepredvidivost promena. Na položaj preduzeća utiču interni i eksterni faktori. Menadžment ima značajne mogućnosti delovanja na interne faktore dok na eksterne ne može uticati. Pretpostavka kvalitetnog upravljanja jeste blagovremena spoznaja snaga i slabosti preduzeća. Kako bi jedno korporativno preduzeće bilo uspešno potrebno je blagovremeno analizirati sve elemente koji garantuju opštu materijalnu solidnost, dobru reputaciju i perspektivu, kao i dobru konkurentsku poziciju na tržištu, dobre razvojne i proizvodne programe koji predstavljaju garanciju za dug životni ciklus preduzeća i njegovu ispravnu strategiju i orijentaciju. Bonitet se odnosi na analizu poslovanja koja ima za cilj da utvrdi i oceni kvalitet poslovanja. Pokazuje koliko je određeno preduzeće uspešno, pa otuda služi za sagledavanje postojećeg finansijskog stanja kao i za ocenu budućeg poslovanja i razvoja.
Cilj istraživanja je da se ukaže na značaj ocene boniteta i da se objasni na koji način se prikupljaju informacije pomoću kojih se mogu izbeći rizici u poslovanju.

Ključne reči: bonitet, finansijski pokazatelji, korporativno preduzeće

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